

C98F00
Workers' Compensation Commission

Operating Budget Data

(\$ in Thousands)

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$12,730	\$13,768	\$13,138	-\$630	-4.6%
Reimbursable Fund	<u>30</u>	<u>30</u>	<u>30</u>	<u>0</u>	
Total Funds	\$12,760	\$13,798	\$13,168	-\$630	-4.6%

- In terms of total funds, the Workers' Compensation Commission (WCC) budget decreases 4.6%. However, one-time savings in retiree health insurance mask the underlying growth. When adjusting for the health insurance savings, WCC's total budget decreases by 1.9%.
- The fiscal 2008 allowance decreases \$630,000 from the fiscal 2007 working appropriation mostly as a result of over-estimating personnel expenses, as well as the elimination of 5.5 contractual positions.

Personnel Data

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>
Regular Positions	125.50	124.00	124.00	0.00
Contractual FTEs	<u>12.11</u>	<u>17.75</u>	<u>12.25</u>	<u>-5.50</u>
Total Personnel	137.61	141.75	136.25	-5.50

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	5.95	4.80%
Positions Vacant as of 12/31/06	5.00	4.03%

- WCC had 5 vacant positions as of December 31, 2006, 3.0 for 0 to 6 months and 2.0 for 7 to 12 months. However, 1 of these positions has since been filled.
- Regular positions remain unchanged. The reduction of 5.5 contractual positions in the fiscal 2008 allowance is due to the completion of a project restricting electronic access to sensitive medical information in old WCC files. The positions, originally funded in fiscal 2005 have been eliminated at the completion of the project.

Note: Numbers may not sum to total due to rounding.

For further information contact: Janelle B. Mummey

Phone: (410) 946-5530

Analysis in Brief

Major Trends

Effective and Timely Delivery of Services: WCC continues to set 90% of all non-permanency hearings within 60 days of the date when issues are filed and issue 95% of its orders within 30 days of the conclusion of the hearing.

Transition to Electronic Information Systems: WCC has shifted from a paper system to an electronic delivery system in order to achieve functional efficiency. Insurers will eventually be able to report payroll data electronically.

Recommended Actions

1. Concur with Governor's allowance.

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Workers' Compensation Commission

Operating Budget Analysis

Program Description

The Workers' Compensation Commission (WCC) administers the Workers' Compensation Law which requires most Maryland employers to obtain and maintain insurance to provide benefits for employees who sustain an accidental personal injury, occupational disease, or death in the course of their employment. WCC receives, processes, and adjudicates all workers' compensation claims and refers appropriate claimants for medical and rehabilitation vocational services. WCC also provides information technology support services to the Subsequent Injury Fund and the Uninsured Employers' Fund under an interagency support services agreement. WCC is a special fund agency that covers expenditures with an annual maintenance assessment imposed on insurance carriers, the Injured Workers' Insurance Fund, and self-insured employers. The WCC mission addresses the need for:

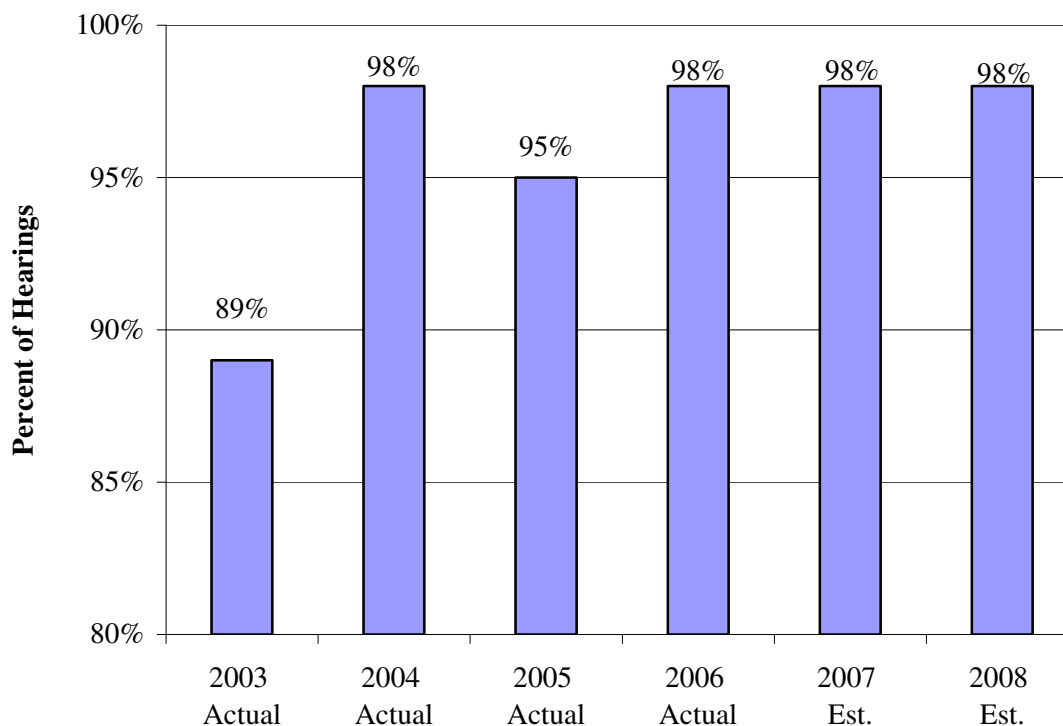
- effective and timely delivery of services provided to its customers;
- a system for electronic exchange of all claims information documents; and
- establishment of an effective system for collection and analysis of all costs associated with the delivery of workers' compensation benefits.

Performance Analysis: Managing for Results

Effective and Timely Delivery of Services

One of the Managing for Results goals of WCC is to set 90% of all non-permanency hearings within 60 days of the date when issues are filed. WCC was slightly below its target in fiscal 2003 but has since exceeded its objective by between five and eight percentage points. There is no reason to believe that the agency cannot continue to meet or exceed the standard. **Exhibit 1** shows the percentage of non-permanency hearings set within 60 days.

Exhibit 1
Non-permanency Hearings Set within 60 Days
Fiscal 2003-2008



Source: Workers’ Compensation Commission

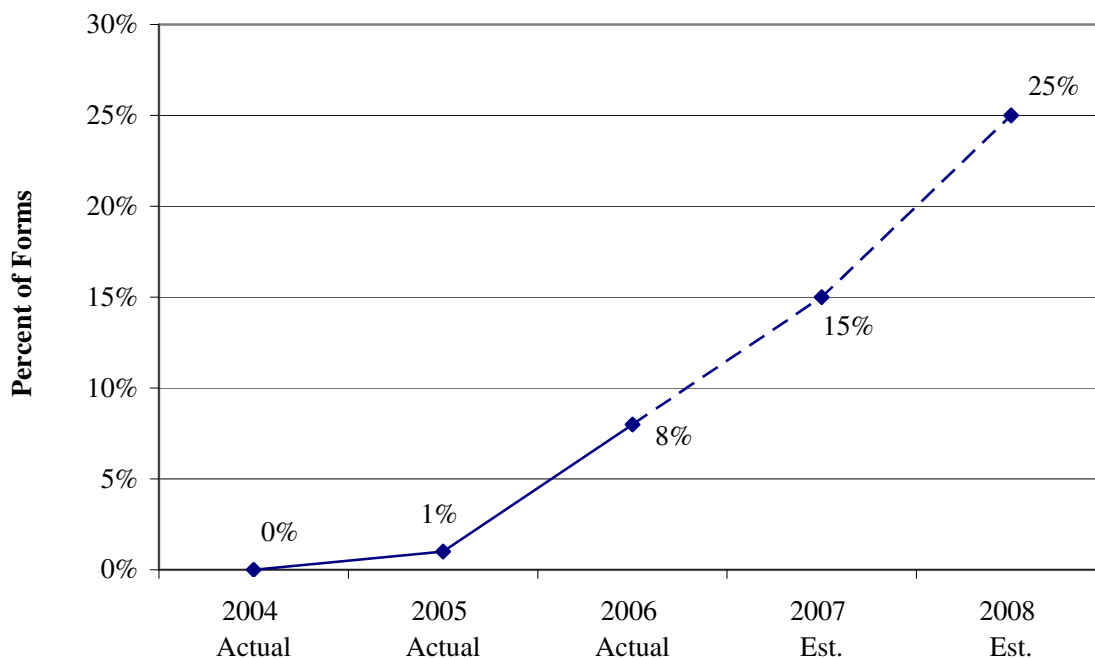
WCC seeks to issue 95% of its orders within 30 days of the conclusion of a hearing. In fiscal 2003, the agency failed to meet the target but has since recorded a rate of 96% for fiscal 2004 through 2006. WCC projects a continued rate of 96% for fiscal 2007 and 2008.

Transition to Electronic Information Systems

In order to optimize internal functions, WCC has shifted from a paper system to an electronic delivery system. The Web-enabled File Management System installation was completed in fiscal 2005. WCC set a goal that 75% of insurers will report payroll data electronically by fiscal 2010. Current estimates from WCC show 25% of insurers reporting electronically in fiscal 2008.

With implementation of the electronic delivery system progressing, WCC has been able to receive more information documents via electronic means. In fiscal 2004, WCC received 914 forms via the Internet, and this number increased to 3,839 forms in fiscal 2005 and 29,605 forms in fiscal 2006. **Exhibit 2** shows the increasing percentage of electronic form submissions and projections through fiscal 2008.

Exhibit 2
Percent of Customer Forms Filed Electronically
Fiscal 2004-2008



Source: Workers' Compensation Commission

Governor's Proposed Budget

As detailed in **Exhibit 3**, the Workers' Compensation Commission's fiscal 2008 allowance decreases \$630,000, or 4.6% from the fiscal 2007 working appropriation. However, the use of one-time health insurance savings masks the growth in the allowance. When adjusting for the one-time savings, WCC's total budget decreases by \$252,695, or 1.9%.

Personnel costs are shown to decrease by \$685,000 in Exhibit 3, but the underlying decrease is \$0.2 million. The Workers' Compensation Commission's retiree health insurance premiums are \$492,000 in the fiscal 2007 budget; however, these costs will be funded by health insurance savings from previous fiscal years in fiscal 2008. Therefore, the funds are not included in the allowance.

The other significant decreases are the result of the Workers' Compensation Commission's over-estimating its ability to fill positions in fiscal 2007, as well as the elimination of 5.5 contractual positions after completing a project to restrict electronic access to sensitive medical information in old WCC files.

Exhibit 3
Governor's Proposed Budget
Workers' Compensation Commission
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2007 Working Appropriation	\$13,768	\$30	\$13,798
2008 Governor's Allowance	<u>13,138</u>	<u>30</u>	<u>13,168</u>
Amount Change	-\$630	\$0	-\$630
Percent Change	-4.6%		-4.6%

Where It Goes:**Personnel Expenses**

Turnover adjustments	\$163
Retirement changes	116
Increments and other compensation	-472
Health insurance costs decline due to one-time savings.....	-492

Other Changes

Reduction in special payments payroll resulting from the elimination of 5.5 contractual FTEs after completion of medical records security project	-101
Decrease in the need for separate purchases of operating software, as many of the necessary applications have been bundled with recent computer purchases.....	-30
Replacement computers and servers	-28
Reduction of Westlaw subscription.....	-4
Motor vehicle maintenance and repair based on fiscal 2006 actual	-2
Costs to upgrade and replace Cisco catalyst network switch which is the main hub for Workers' Compensation Commission network.....	40
Postage costs based on fiscal 2006 actual	32
Costs resulting from increased utility rates	26
Telecommunications and delivery charges based on fiscal 2006 actuals.....	25
In-state travel based on fiscal 2006 actual costs plus anticipated expenditures resulting from the recent opening of the fifth Regional Hearing site location in Frederick, Maryland	20
Application and systems software maintenance	20
Maintenance of computer equipment and off-site data storage.....	19
Rent escalation based on increases in property taxes, utilities, and janitorial services	18

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Where It Goes:

Contractual services associated with annual report publication	9
Replacement of six laser printers	6
Management consultants used to perform actuarial studies and audits, as well as the annual cost for participation in the WCRI CompScope benchmarking	5
Total	-\$630

FTE: Full-time equivalent

WCRI: Workers’ Compensation Research Institute

Note: Numbers may not sum to total due to rounding.

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets Workers' Compensation Commission (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2006					
Legislative Appropriation	\$0	\$12,269	\$0	\$30	\$12,299
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	563	0	0	563
Reversions and Cancellations	0	-102	0	0	-102
Actual Expenditures	\$0	\$12,730	\$0	\$30	\$12,760
Fiscal 2007					
Legislative Appropriation	\$0	\$12,940	\$0	\$30	\$12,970
Budget Amendments	0	828	0	0	828
Working Appropriation	\$0	\$13,768	\$0	\$30	\$13,798

Note: Numbers may not sum to total due to rounding.

Fiscal 2006

Budget amendments added \$562,674 to the fiscal 2006 legislative appropriation. The largest increase of \$396,231 provided funds to purchase a new RS-6000 mid-range server and a new Optical Storage and Achievable Retrieval System. Another \$127,323 was added to fund the employee cost-of-living adjustment (COLA) increase. Finally, \$39,120 was allocated for the evaluation of the FileNet Document Imaging Software.

A special fund cancellation totaled \$102,000, and came from position vacancies.

Fiscal 2007

The fiscal 2007 working appropriation has increased by \$828,000 over the legislative appropriation. \$697,000 resulting from an amendment which provides funds for increases in salaries that resulted from filling vacancies above the base level, new management study contracts, and increased rent due to rising utility costs. Another \$131,000, transferred from the Department of Budget and Management, was added to recognize the fiscal 2007 employee COLA.

Audit Findings

Audit Period for Last Audit:	March 4, 2002 – June 30, 2005
Issue Date:	March 2006
Number of Findings:	7
Number of Repeat Findings:	1
% of Repeat Findings:	14%
Rating: (if applicable)	n/a

- Finding 1:** WCC did not monitor the services provided by the Injured Workers' Insurance Fund (IWIF) or the related fees paid to IWIF for these services.
- Finding 2:** WCC's procedures for monitoring the sufficiency of security pledged by self-insured employers were inadequate.
- Finding 3:** WCC did not adjust assessment billings to correct errors that occurred in the assessments for fiscal 2002 and 2005. These errors resulted in a net over assessment of approximately \$700,000.
- Finding 4:** **WCC did not verify the accuracy of reported employer payroll data used to calculate annual assessments to insurance companies and self-insured employers.**
- Finding 5:** Adequate accountability and control had not been established over cash receipts.
- Finding 6:** WCC did not prepare written justifications for certain sole source procurements or obtain the required approval from the Board of Public Works.
- Finding 7:** WCC had not established proper accountability and control over its equipment.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Workers' Compensation Commission**

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07 - FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	125.50	124.00	124.00	0	0%
02 Contractual	12.11	17.75	12.25	-5.50	-31.0%
Total Positions	137.61	141.75	136.25	-5.50	-3.9%
Objects					
01 Salaries and Wages	\$ 8,166,031	\$ 9,337,582	\$ 8,653,044	-\$ 684,538	-7.3%
02 Technical and Spec. Fees	712,052	889,120	788,014	-101,106	-11.4%
03 Communication	513,717	527,724	571,210	43,486	8.2%
04 Travel	140,848	124,419	144,419	20,000	16.1%
06 Fuel and Utilities	35,513	45,220	71,000	25,780	57.0%
07 Motor Vehicles	89,936	92,151	88,373	-3,778	-4.1%
08 Contractual Services	819,473	931,343	998,710	67,367	7.2%
09 Supplies and Materials	161,226	180,826	151,326	-29,500	-16.3%
10 Equip – Replacement	602,699	69,600	82,000	12,400	17.8%
11 Equip – Additional	16,104	0	5,858	5,858	N/A
12 Grants, Subsidies, and Contributions	52,387	52,387	52,387	0	0%
13 Fixed Charges	1,419,364	1,547,878	1,561,475	13,597	0.9%
14 Land and Structures	30,496	0	0	0	0.0%
Total Objects	\$ 12,759,846	\$ 13,798,250	\$ 13,167,816	-\$ 630,434	-4.6%
Funds					
03 Special Fund	\$ 12,729,692	\$ 13,768,096	\$ 13,137,662	-\$ 630,434	-4.6%
09 Reimbursable Fund	30,154	30,154	30,154	0	0%
Total Funds	\$ 12,759,846	\$ 13,798,250	\$ 13,167,816	-\$ 630,434	-4.6%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.